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INFO RUEHHH/OPEC COLLECTIVE
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RUEHBO/AMEMBASSY BOGOTA 7983
RUEHBR/AMEMBASSY BRASILIA 6131
RUEHLP/AMEMBASSY LA PAZ JAN LIMA 1164
RUEHSP/AMEMBASSY PORT OF SPAIN 3696
RUEHQT/AMEMBASSY QUITO 2978
RUEHSG/AMEMBASSY SANTIAGO 4108
RUEHDG/AMEMBASSY SANTO DOMINGO 0636
RHEHNSC/NSC WASHDC
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCPDOG/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RUMIAAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L CARACAS 000541

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
COMMERCE FOR 4332/MAC/WH/JLAO
NSC FOR RKING

E.O. 12958: DECL: 04/29/2019
TAGS: [EPET](#) [EINV](#) [ENRG](#) [ECON](#) [VE](#)
SUBJECT: VENEZUELA: MORE EVIDENCE OF CASH FLOW PROBLEMS

REF: A. CARACAS 440
[1](#)B. CARACAS 428
[1](#)C. CARACAS 288
[1](#)D. CARACAS 282
[1](#)E. CARACAS 239
[1](#)F. CARACAS 136

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: Faced with mounting receivables payable by PDVSA and other government entities, the GBRV is turning to alternative payment solutions to stay afloat during its cash flow crisis, including proposing barter swaps of commodities and the issuance of bonds. Halliburton confirmed receiving less than 5% in arrears in 2009, a quantity that amounts to PDVSA keeping it on 'life support.' U.S. drilling company, ENSCO, has not been paid since September 2008 and PDVSA continues operating its rig. The Camara Petrolera, the organization that represents local petroleum service companies, is split over the payments problem between companies that favor negotiating a solution with PDVSA and those that want to take action that is more aggressive. END SUMMARY.

PDVSA's Arrears with Halliburton

[1](#)2. (C) On April 23, EconCoun and PetAtt met with Martha Sandia Saldiva, Halliburton's Global Account Manager with PDVSA. Saldiva shared that Halliburton has received minimal payments for the last eight months that barely approach 5% of total outstanding receivables, which currently stand at \$270 million. Halliburton has received two payments in 2009 (mixed USD and Bolivars), one on March 6 for a total of \$9 million and one on April 3 for \$10 million. Halliburton's operations in Venezuela generate roughly \$30 million in receivables monthly, though, given the current situation, the company has been reducing operations and laying off employees. Halliburton is also carrying a \$35 million debt at 28% interest with Banco Provincial in Venezuela. Saldiva

estimates PDVSA's current monthly revenue is less than \$1.5 billion and that it provided the GBRV with \$14 billion in November Q)December 2008 to support elections.

ENSCO Q) Another Type of Problem

13. (C) On April 27, PetAtt spoke with Hugh Q&BlueQ8 Gesch (strictly protect throughout), ENSCOQ,s Venezuela rig manager. He confirmed that ENSCO last received a partial payment in September 2008. Its outstanding arrears are now in the neighborhood of \$50 million (when ENSCO suspended the contract in January arrears stood at \$32 million). PDVSA has asked ENSCO to reduce its day rate by 30% retroactively. ENSCO had a two-year Q&firm contractQ8 with three one-year options to extend and a provision to adjust day rates every six months based on prevailing market conditions. ENSCO suspended the contract 6-8 months into the first year. ENSCO has agreed to a rate reduction going forward but it has not reached consensus with PDVSA on a specific percentage reduction. PDVSA continues rig operations with ENSCO providing food, insurance, and salary payments to the national crew. The U.S. firm has stopped providing the rig with spare parts, oil (mud), and other supplies. The company maintains a presence on the rig, but has removed its mechanics and engineers.

14. (C) During negotiations in January and February, PDVSA and ENSCO reached agreement on a schedule. That agreement was nullified when PDVSA turned payment issues over to the newly formed PDVSA Services (PDVSA Servicios) following the

February 15 national referendum. ENSCO's first meeting with PDVSA Servicios to discuss payments took place on April 11.

Possible PDVSA Bond Issuance

15. (C) EconCoun and Petroleum AttachQ met with Andres Duarte (strictly protect throughout) on April 24. Duarte, the former president of the Camara Petrolera, confirmed that on April 14 PDVSA proposed to pay its outstanding Bolivar-denominated debt to Camara members with USD-denominated bonds. Specifically, PDVSA's bond payments would be calculated at a rate of 2.3 Bs to the USD (the official exchange rate is 2.15 Bs to the USD) and with the provision that companies would have to hold the bonds for a year before selling them in the market. He estimates that PDVSA owes Camara members collectively a minimum of \$300 million. On April 21, PDVSA replaced the offer of USD-denominated bonds with one for Bs-denominated bonds. According to Duarte, the Camara is "at a boiling point" and is split between members who want to continue negotiating and seek better terms and those who want to launch a more adversarial campaign against PDVSA.

16. (C) Tracking with the Camara's negotiations with PDVSA for payment in bonds, Saldiva stated PDVSA offered Halliburton payment for Bs-denominated debt with USD-denominated Venezuelan bonds (with a 50% reduction in the overall Bs-receivables). Saldiva said that Halliburton's financial problems in Venezuela are significant and that it faces potential legal action from some of its providers over its non-payment of invoices. On April 28, the press reported that PDVSA plans to issue up to \$3 billion in dollar-denominated bonds to cover debt owed to service companies.

Companies Turn to Barter with the GBRV for Payments

17. (C) As of early April, an Italian-owned company in which Duarte has a minority share and that operates an offshore coal transfer station in Lake Maracaibo was owed over \$3 million from a "take or pay" contract with Carbones del Guasare (CDG), a joint venture company. CDG operates the Paso Diablo Mine in Lake Maracaibo and is composed of the U.S. firm Peabody (25.5%), Anglo American (25.5%) and state-owned Carbozulia (49%). (NOTE: President Chavez transferred ownership in 2004 of Carbozulia from PDVSA to Corpozulia the GBRV's development agency in Zulia.)

According to Duarte, recent coal production has fallen precipitously from 400,000 tons/month with CDG claiming labor and maintenance problems. CDG maintains that transfers of funds to the central government have left it with no cash to pay the outstanding \$3 million. In order to settle the pending balance, Duarte's company suggested payment in coal, a proposal CDG accepted. Upon approaching a law firm to propose the barter, the lawyers told Duarte that his company is the third in the last month to propose such a payment plan. Duarte recounted that Koch Industries, whose subsidiaries have been involved in several joint ventures with Pequiven, the Venezuelan national petrochemicals company, is receiving payment in petroleum coke. Duarte also believes that an Italian group in the oil sector has negotiated payment in crude oil.

18. (C) Faced with growing financial and technical problems, Duarte believes that PDVSA is seeking ways to outsource some of its operations, including possibly having offered Shell an opportunity to operate some of PDVSA's refineries (through a joint venture). Furthermore, he added that Spanish electrical firm, Iberdrola, which sells large turn-key electrical projects, sent a team to Caracas a month ago to

negotiate with CADAFE (Venezuela's national electricity utility) for maintenance and upgrades to Venezuela's Planta Centro and Guarico electrical plants. The company was offered payment in oil shipments, but has not received any indication as to how much oil is being offered, at what price it will be valued, and which product the GBRV is offering.

19. (C) COMMENT: The GBRV's cash flow problems extend beyond PDVSA and its core petroleum business. Companies that are playing by the rules (i.e., Halliburton) are receiving 'life support' payments to maintain operations. ENSCO, which very publicly broke with PDVSA while executing a drilling contract, has yet to receive any payments. PDVSA's latest strategy of offering bonds to settle its outstanding payments problems provides further insight into the extent of its cash flow problems. The GBRV's willingness to trade future crude and coal production in exchange for services today underscores the political trade-off of maintaining the GBRV's social missions in the short term while waiting for commodity prices to increase long term.

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